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C O N F I D E N T I A L CARACAS 002543

SIPDIS

NSC FOR TSHANNON AND CBARTON
ENERGY FOR DPUMPHREY AND ALOCKWOOD

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TAGS: PGOV ENRG KDEM VE
SUBJECT: REFERENDUM DAY GASOLINE SHORTAGES LIKELY IN EASTERN CARACAS

Classified By: Economic Counselor Richard Sanders, for reasons 1.4 (b) and (d)

SUMMARY

¶1. (C) ChevronTexaco (CTX) downstream managers confirm they believe the GOV will seek to cut off gasoline supplies in the eastern (opposition) part of Caracas before the August 15 referendum. Such an action could cost the opposition a (very) few votes, but would raise tensions immediately before, during, and after the referendum. CTX managers also believe a Ministry of Energy and Mines Price Commission will recommend price increases for leaded and unleaded gasoline after August 15. These price increases are needed to ensure the continued viability of service station operations that are suffering with the current 1.1 cent/gallon margin. The service station owners association has proposed that service stations fire 20,000 employees and begin self-service because they cannot pay the August 1 ten percent wage increase. End Summary.

GASOLINE LIKELY TO BE IN SHORT SUPPLY IN EAST CARACAS

¶2. (C) Following an August 6 report by a Political Section FSN that she had been warned by her local service station owner that the GOV would cut off gasoline supplies in eastern Caracas over the August 14-15 weekend, econoff raised the issue August 9 with CTX Venezuela Downstream Manager Maurico Pulido and visiting CTX Andean Regional Downstream Manager Adrien Bendeck. Pulido confirmed that CTX and other service station operators anticipate that the GOV will once again attempt to "dry out" the opposition parts of the city in advance of the August 15 election. El Universal columnist Nelson Bocaranda also reported the "rumor" of a gasoline cut-off in his August 9 article.

¶3. (C) Pointing to the May appeals process, in which eastern Caracas began to have a gasoline shortage at the end of the three-day period, Pulido commented that the GOV had learned a lesson from that experience. In May, he said, the GOV had not calculated the supplies stations would have on hand and had not suspended shipments early enough to cause serious disruption. Despite subsequent public claims by PDVSA that the disruption in deliveries occurred because of delays in receiving company sales orders, Pulido said that contacts in PDVSA's Supply and Distribution Department had admitted to him that they had been ordered to suspend deliveries to eastern Caracas. This time, said Pulido, PDVSA has already requested that it receive all sales orders for August 11-August 16 by August 11. Usually, he said, these orders are submitted 24 hours in advance of delivery. CTX plans to hand deliver the sales orders so there can be no claim that they were not received by PDVSA but Pulido and Bendeck also noted that they have instructed all CTX service stations to top up their tanks on August 10 in anticipate of six days without deliveries. The gas station owner told Pol FSN that he was told that after August 13 he should not expect deliveries until August 17.

GASOLINE PRICES TO RISE?

¶4. (C) Pulido also informed econoff that the Ministry of Energy and Mines (MEM) formed a commission to consider gasoline prices two months ago. This Price Commission was charged with developing a proposal for handling gasoline price increases for the GOV. Much to his surprise, he said, the study has already been completed.

¶5. (C) According to Pulido, there has been no change in the wholesale margin since 2002. The companies that entered the market as a result of the 1997 opening had been promised that the margin would grow to 5 cents/gallon between 1998-2000. The margin was then supposed to remain stable at 5 cents/gallon which would ensure a good business according to

Pulido and Bendick. Currently, the margin is 5.7

bolivars/liter or 1.1 cent/gallon (the lowest in the world according to Bendeck) and service station operators are suffering. Bendeck noted that the "thru-put" of Venezuelan gas stations is so high that even with a 1.1 cent/gallon margin the larger stations can operate at a profit. Smaller stations cannot. Shell announced early in 2004 that it will pull out of the market while Pulido informed econoff that BP and ExxonMobil have also sought to pull out of the market and have been blocked by the MEM.

¶6. (C) Pulido believes the Price Commission has proposed to the MEM that the sales price of unleaded fuel be increased from 97 bolivars to 150 bolivars/litre. The price of leaded gasoline would increase from 70 to 90 bolivars/litre, while the price of diesel would not be changed so as not to affect public transport costs. These products represent 25, 50 and 25 percent respectively of CTX's Venezuelan sales. The increase in the price of unleaded gasoline would yield a 2.2 cents/gallon margin. Pulido reported that the MEM is also studying alternatives such as resuming support for a natural gas vehicle program and using the moribund train network to transport cargo.

SERVICE STATION EMPLOYMENT

¶7. (C) Pulido also informed econoff that FENEGAS, the service station association, sent a letter to its members the week of August 2 in which it urged that they turn their stations into self-service operations. This would, it said, allow association members to fire 20,000 of their 43,000 direct employees. FENEGAS urged this because its members cannot afford to pay their employees the 10 percent pay increase mandated on August 1. In fact, said Pulido, 80 percent of service stations are not paying their employees the increase mandated in 2003. He added that the only reason the sector has not gone on strike is that the GOV has passed a decree stating that the stations are a public utility. The owners fear the GOV would simply take over their stations. Despite this, the FENEGAS letter appears to be a pressure tactic with little chance of success.

DELIVERY OPERATIONS

¶8. (C) Pulido then turned to the issue of the cooperatives set up by the GOV to handle gasoline deliveries during the January 2002-February 2003 strike. The cooperative drivers are still driving older gas trucks from the PDVSA fleet, according to Pulido and Bendeck, as well as gas trucks seized from private sector transport companies during the strike. PDVSA is paying the private truck owners "rent" for the use of their vehicles, they said, but the companies are still called on to service their trucks when maintenance is needed. The companies provide the service because they still hope to reclaim their trucks sometime in the future.

¶9. (C) Pulido said bluntly that the cooperatives are not working. For one thing, he said, the accident rate has increased. He added that there are 113 drivers operating out of the Guatire plant that supplies Caracas who believe that they will own one of these trucks sometime in the future. This is highly unlikely he said but, in the meantime, the drivers attend a daily course on "cooperatismo."

COMMENT

¶10. (C) It is not surprising that the GOV would seek to use anything it can - including gasoline sales - to annoy the opposition and hopefully shave some votes from its totals. We do not think that many opposition supporters would actually be prevented from voting as a result of this tactic. However, a run on gasoline stations in eastern Caracas while gasoline remains plentiful in the west would serve to increase tensions immediately before, during, and after August 15. It is also not surprising that the GOV would only unveil any plans it may have to increase gasoline prices

after August 15. If Chavez loses the referendum and goes to an election any price increase on gasoline would be further delayed.
Shapiro

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